

UNITED STATES OF AMERICA
BEFORE THE
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D.C.

STATE OF WISCONSIN
DEPARTMENT OF FINANCIAL INSTITUTIONS
MADISON, WISCONSIN

Written Agreement by and among

STATE BANK FINANCIAL
La Crosse, Wisconsin

FEDERAL RESERVE BANK OF MINNEAPOLIS
Minneapolis, Minnesota

and

STATE OF WISCONSIN
DEPARTMENT OF FINANCIAL
INSTITUTIONS
Madison, Wisconsin

Docket No. 10-142 -WA/RB-SM

WHEREAS, in recognition of their common goal to maintain the financial soundness of State Bank Financial, La Crosse, Wisconsin (the “Bank”), a state-chartered bank that is a member of the Federal Reserve System, the Bank, the Federal Reserve Bank of Minneapolis (the “Reserve Bank”), and the Wisconsin Department of Financial Institutions (“DFI”) have mutually agreed to enter into this Written Agreement (the “Agreement”); and

WHEREAS, on September 3, 2010, the board of directors of the Bank, at a duly constituted meeting, adopted a resolution authorizing and directing Steven R. Burgess to enter into this Agreement on behalf of the Bank, and consenting to compliance with each and every applicable provision of this Agreement by the Bank, and its institution-affiliated parties, as defined in section 3(u) of the Federal Deposit Insurance Act, as amended

(the “FDI Act”)(12 U.S.C. § 1813(u)).

NOW, THEREFORE, the Bank, the Reserve Bank, and the DFI agree as follows:

Board Oversight

1. Within 60 days of this Agreement, the board of directors of the Bank shall submit to the Reserve Bank and the DFI a written plan to strengthen board oversight of the management and operations of the Bank. The plan shall, at a minimum, address, consider, and include:

- (a) The actions that the board of directors will take to improve the Bank’s condition and maintain effective control over, and supervision of, the Bank’s major operations and activities, including but not limited to, credit risk management and administration, asset quality, the allowance for loan and lease losses (“ALLL”), capital, earnings, and liquidity;
- (b) steps to strengthen the Bank’s loan workout function;
- (c) a description of the information and reports that will be regularly reviewed by the board of directors in its oversight of the operations and management of the Bank, including information on the Bank’s adversely graded assets, nonaccrual loans, loan workout plans, and ALLL.

Credit Risk Management

2. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the DFI an acceptable written plan to strengthen credit risk management practices. The plan shall, at a minimum, address, consider, and include:

- (a) Periodic review and revision of risk exposure limits to address changes in market conditions;
- (b) strategies to minimize credit losses and reduce the level of problem assets;

- (c) timely and accurate identification and quantification of credit risk within the loan portfolio;
- (d) stress testing of loan and portfolio segments; and
- (e) management's monitoring and controlling of problem assets.

Credit Administration

3. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the DFI an acceptable enhanced written credit administration program that shall, at a minimum, address, consider, and include:

- (a) Policies and procedures to provide for the independence of appraisal ordering and appraisal review, and the documentation of appraisal reviews;
- (b) policies and procedures to ensure the timely recognition of collateral impairment;
- (c) policies and procedures that provide for the timely preparation of detailed workout plans that are appropriately structured based on a realistic assessment of the borrower's repayment capacity; and
- (d) policies and procedures that provide for the tracking, monitoring, and measurement of borrower compliance with loan workout plans and forbearance agreements.

Asset Improvement

4. The Bank shall not, directly or indirectly, extend, renew, or restructure any credit to or for the benefit of any borrower, including any related interest of the borrower, whose loans or other extensions of credit are criticized in the report of examination of the Bank conducted by the Reserve Bank that commenced on January 4, 2010 (the "Report of Examination") or in any subsequent report of examination without the prior approval of a majority of the full board of

directors or a designated committee thereof. The board of directors or its committee shall document in writing the reasons for the extension of credit, renewal, or restructuring, specifically certifying that: (i) the Bank's risk management policies and practices for loan workout activity are acceptable; (ii) the extension of credit is necessary to improve and protect the Bank's interest in the ultimate collection of the credit already granted and maximize its potential for collection; (iii) the extension of credit reflects prudent underwriting based on reasonable repayment terms and is adequately secured; and all necessary loan documentation has been properly and accurately prepared and filed; (iv) the Bank has performed a comprehensive credit analysis indicating that the borrower has the willingness and ability to repay the debt as supported by an adequate workout plan, as necessary; and (v) the board of directors or its designated committee reasonably believes that the extension of credit will not impair the Bank's interest in obtaining repayment of the already outstanding credit and that the extension of credit or renewal will be repaid according to its terms. The written certification shall be made a part of the minutes of the meetings of the board of directors or its committee, as appropriate, and a copy of the signed certification, together with the credit analysis and related information that was used in the determination, shall be retained by the Bank in the borrower's credit file for subsequent supervisory review. For purposes of this Agreement, the term "related interest" is defined as set forth in section 215.2(n) of Regulation O of the Board of Governors (12 C.F.R. § 215.2(n)).

5. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the DFI an acceptable written plan designed to improve the Bank's position through repayment, amortization, liquidation, additional collateral, or other means on each loan, relationship, or other asset in excess of \$1,000,000, including other real estate owned ("OREO") and loan participations, that are past due as to principal or interest more than 90 days

as of the date of this Agreement, are on the Bank's problem loan list, or were adversely classified in the Report of Examination.

(b) Within 30 days of the date that any additional loan, relationship, or other asset in excess of \$1,000,000, including OREO, becomes past due as to principal or interest for more than 90 days, is on the Bank's problem loan list, or is adversely classified in any subsequent report of examination of the Bank, the Bank shall prepare a written plan to improve the Bank's position on such loan, relationship, or asset, and shall submit such plan for approval to the Reserve Bank and the DFI within 30 days after the end of the calendar quarter in which the loan or asset became subject to the requirements of this paragraph.

(c) Within 30 days after the end of each calendar quarter thereafter, the Bank shall submit a written progress report to the Reserve Bank and the DFI to update each asset improvement plan, which shall include, at a minimum, the carrying value of the loan or other asset and changes in the nature and value of supporting collateral, along with a copy of the Bank's current problem loan list, a list of all loan renewals and extensions without full collection of interest in the last quarter, and past due/non-accrual report.

Allowance for Loan and Lease Losses

6. (a) Within 10 days of this Agreement, the Bank shall eliminate from its books, by charge-off or collection, all assets or portions of assets classified "loss" in the Report of Examination that have not been previously collected in full or charged off. Thereafter the Bank shall, within 30 days from the receipt of any federal or state report of examination, charge off all assets classified "loss" unless otherwise approved in writing by the Reserve Bank and the DFI.

(b) The Bank shall maintain a sound process for determining, documenting,

and recording an adequate allowance for loan and lease losses (“ALLL”) in accordance with regulatory reporting instructions and relevant supervisory guidance, including the Interagency Policy Statements on the Allowance for Loan and Lease Losses, dated July 2, 2001 (SR 01-17 (Sup)) and December 13, 2006 (SR 06-17).

(c) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the DFI an acceptable written program for the maintenance of an adequate ALLL. The program shall include policies and procedures to ensure adherence to the Bank’s revised ALLL methodology and provide for periodic reviews and updates to the ALLL methodology, as appropriate. The program shall also provide for a review of the ALLL by the board of directors on at least a quarterly calendar basis. Any deficiency found in the ALLL shall be remedied in the quarter it is discovered, prior to the filing of the Consolidated Reports of Condition and Income, by additional provisions. The board of directors shall maintain written documentation of its review, including the factors considered and conclusions reached by the Bank in determining the adequacy of the ALLL. During the term of this Agreement, the Bank shall submit to the Reserve Bank and the DFI, within 30 days after the end of each calendar quarter, a written report regarding the board of directors’ quarterly review of the ALLL and a description of any changes to the methodology used in determining the amount of the ALLL for that quarter.

Capital Plan

7. The Bank shall continue to maintain an acceptable capital plan designed to provide sufficient capital at the Bank. The plan shall, at a minimum, address, consider, and include:

(a) The Bank’s current and future capital needs, including compliance with the Capital Adequacy Guidelines for State Member Banks: Risk-Based Measure and Tier 1

Leverage Measure, Appendices A and B of Regulation H of the Board of Governors

(12 C.F.R. Part 208, App. A and B);

(b) the adequacy of the Bank's capital, taking into account the volume of classified credits, concentrations of credit, ALLL, current and projected asset growth, and projected retained earnings; and

(c) the source and timing of additional funds to fulfill the Bank's future capital requirements.

8. The Bank shall notify the Reserve Bank and the DFI, in writing, no more than 30 days after the end of any quarter in which any of the Bank's capital ratios (total risk-based, Tier 1 risk-based, or leverage) fall below the approved capital plan's minimum ratios. Together with the notification, the Bank shall submit an acceptable written plan that details the steps the Bank will take to increase its capital ratios to or above the approved capital plan's minimums.

Liquidity/Funds Management

9. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the DFI an acceptable revised written contingency funding plan that, at a minimum, includes adverse scenario planning and identifies and quantifies available sources of liquidity for each scenario.

Earnings Plan and Budget

10. (a) Within 90 days of this Agreement, the Bank shall submit to the Reserve Bank and the DFI a written business plan for the remainder of 2010 to improve the Bank's earnings and overall condition. The plan, at a minimum, shall provide for or describe:

(i) a realistic and comprehensive budget for the remainder of calendar year 2010, including income statement and balance sheet projections; and

(ii) a description of the operating assumptions that form the basis for, and adequately support, major projected income, expense, and balance sheet components.

(b) During the term of this Agreement, a business plan and budget for each calendar year subsequent to 2010 shall be submitted to the Reserve Bank and the DFI at least 30 days prior to the beginning of that calendar year.

Dividends

11. (a) The Bank shall not declare or pay any dividends without the prior written approval of the Reserve Bank, the Director of the Division of Banking Supervision and Regulation of the Board of Governors, and the DFI.

(b) All requests for prior approval shall be received at least 30 days prior to the proposed dividend declaration date. All requests shall contain, at a minimum, current and projected information on the Bank's capital, asset quality, earnings and ALLL needs. The Bank must also demonstrate that the requested declaration or payment of dividends is consistent with the Board of Governors' Policy Statement on the Payment of Cash Dividends by State Member Banks and Bank Holding Companies, dated November 14, 1985 (Federal Reserve Regulatory Service, 4-877 at page 4-323).

Compliance with Laws and Regulations

12. In appointing any new director or senior executive officer, or changing the responsibilities of any senior executive officer so that the officer would assume a different senior executive officer position, Bancorp and the Bank shall comply with the notice provisions of section 32 of the FDI Act (12 U.S.C. § 1831i) and Subpart H of Regulation Y of the Board of Governors.

13. The Bank shall comply with the restrictions on indemnification and severance

payments of section 18(k) of the FDI Act (12 U.S.C. § 1828(k)) and Part 359 of the Federal Deposit Insurance Corporation's regulations (12 C.F.R. Part 359).

Compliance with the Agreement

14. Within 30 days after the end of each calendar quarter following the date of this Agreement, the board of directors shall submit to the Reserve Bank and the DFI written progress reports detailing the form and manner of all actions taken to secure compliance with this Agreement and the results thereof.

Approval and Implementation of Plans, Programs, and Procedures

15. (a) The Bank shall submit written plans and programs that are acceptable to the Reserve Bank and the DFI within the applicable time periods set forth in paragraphs 2, 3, 5(a), 6(c), and 9 of this Agreement.

(b) Within 10 days of approval by the Reserve Bank and the DFI, the Bank shall adopt the approved plans and programs. Upon adoption, the Bank shall promptly implement the approved plans and programs, and thereafter fully comply with them.

(c) During the term of this Agreement, the approved plans and programs shall not be amended or rescinded without the prior written approval of the Reserve Bank and the DFI.

Communications

16. All communications regarding this Agreement shall be sent to:

(a) Diann G. Townsend
Assistant Vice President
Federal Reserve Bank of Minneapolis
90 Hennepin Avenue
Minneapolis, Minnesota 55401-1804

- (b) Michael J. Mach
Administrator-Division of Banks
Wisconsin Department of Financial Institutions
P.O. Box 7876
Madison, Wisconsin 53707-7876
- (c) Steven R. Burgess
President and CEO
State Bank Financial
401 Main Street
La Crosse, Wisconsin 54601

Miscellaneous

17. Notwithstanding any provision of this Agreement, the Reserve Bank and the DFI may, in their sole discretion, grant written extensions of time to the Bank to comply with any provision of this Agreement.

18. The provisions of this Agreement shall be binding upon the Bank and its institution-affiliated parties, in their capacities as such, and their successors and assigns.

19. Each provision of this Agreement shall remain effective and enforceable until stayed, modified, terminated, or suspended in writing by the Reserve Bank and the DFI.

20. The provisions of this Agreement shall not bar, estop, or otherwise prevent the Board of Governors, the Reserve Bank, the DFI or any other federal or state agency from taking any other action affecting the Bank or any of its current or former institution-affiliated parties and their successors and assigns.

21. Pursuant to section 50 of the FDI Act (12 U.S.C. § 1831aa), this Agreement is enforceable by the Board of Governors under section 8 of the FDI Act (12 U.S.C. § 1818).

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the 13th of September, 2010.

STATE BANK FINANCIAL

By: /s/ Steven R. Burgess
Steven R. Burgess

FEDERAL RESERVE BANK
OF MINNEAPOLIS

By: /s/ James M. Barnes
James M. Barnes
Vice President

STATE OF WISCONSIN
DEPARTMENT OF FINANCIAL
INSTITUTIONS

By: /s/ Michael J. Mach
Michael J. Mach
Administrator-Division of Banks